

ALLEGAN PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2006

CONTENTS

Page

Independent auditors' report	iv - v
---	--------

Management's Discussion and Analysis	vi – xii
---	----------

Basic financial statements

Government-wide financial statements

Statement of net assets	1
-------------------------------	---

Statement of activities	2
-------------------------------	---

Fund financial statements

Balance sheet - governmental funds	3
--	---

Statement of revenues, expenditures and changes in fund balances - governmental funds.....	4
---	---

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	5
---	---

Fiduciary funds

Statement of fiduciary net assets.....	6
--	---

Notes to financial statements	7 - 24
-------------------------------------	--------

Required supplementary information	25
---	----

Budgetary comparison schedule - general fund	26
--	----

Additional information	27
-------------------------------------	----

Nonmajor governmental fund types

Combining balance sheet	28
-------------------------------	----

Combining statement of revenues, expenditures, and changes in fund balances.....	29
---	----

CONTENTS

	<u>Page</u>
Special revenue funds	
Combining balance sheet	30
Combining statement of revenues, expenditures and changes in fund balances	31
Debt service funds	
Combining balance sheet	32
Combining statement of revenues, expenditures and changes in fund balances	33
Fiduciary funds	
Statement of cash receipts, disbursements and liabilities by activity - agency fund.....	34 - 35
General long-term debt group of accounts	
Bonded debt	36 - 40
Demand promissory note	41
School bond loan and revolving loan funds.....	42



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Allegan Public Schools
Allegan, Michigan

October 9, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allegan Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Allegan Public Schools as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Allegan Public Schools

October 9, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2006, on our consideration of Allegan Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xii and page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan Public Schools' basic financial statements. The additional information on pages 28 to 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costenaro & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

MANAGEMENT DISCUSSION AND ANALYSIS (GASB Statement #34)

This section of Allegan Public Schools' (APS) annual financial report presents an analysis of the District's financial performance during the fiscal year that ended on June 30, 2006.

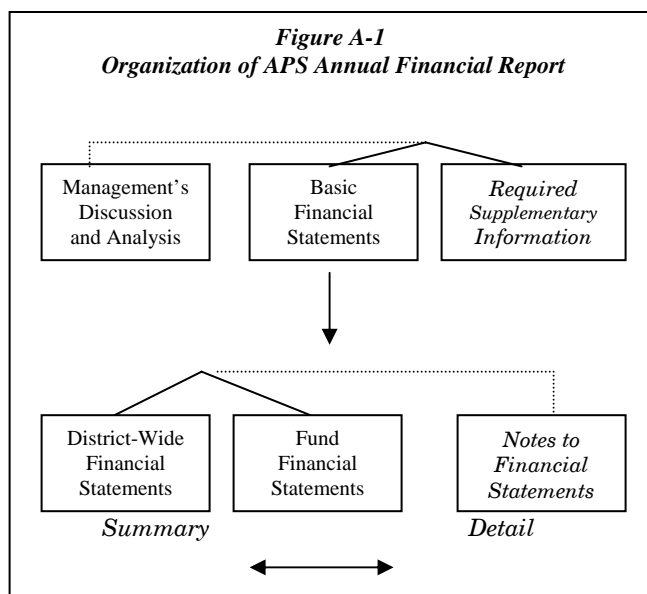
FINANCIAL HIGHLIGHTS

- The District's financial status remained stable; however total net assets decreased (\$225,543).
- Overall revenues were \$27,680,482, fully (\$225,543) less than expenses.
- The total cost of basic programs was \$27,906,025.
- Student enrollment remained virtually stable.
- The District reduced its outstanding long-term debt \$1,588,093.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include various kinds of statements that present different views of the District:

- The first two statements are district-wide ***financial statements*** that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are ***fund financial statements*** that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The ***governmental funds statements*** tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- ***Fiduciary funds statements*** provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Allegan Public Schools' funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets

The District's combined net assets were less on June 30, 2006, than they were the year before by (\$225,543).

Table A-3		
Allegan Public Schools' Net Assets		
	<u>2006</u>	<u>2005</u>
Current assets	\$ 6,879,046	\$ 6,423,173
Capital assets	<u>48,800,952</u>	<u>50,520,204</u>
Total assets	<u>55,679,998</u>	<u>56,943,377</u>
Long-term debt outstanding	42,193,618	43,497,817
Other liabilities	<u>6,650,209</u>	<u>6,383,846</u>
Total liabilities	<u>48,843,827</u>	<u>49,881,663</u>
Net assets:		
Invested in capital assets, net of related debt	4,705,202	4,849,174
Unrestricted	<u>2,130,969</u>	<u>2,212,540</u>
Total net assets	<u>\$ 6,836,171</u>	<u>\$ 7,061,714</u>

Table A-4		
Changes in Allegan Public Schools' Net Assets		
	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 572,297	\$ 551,968
Federal and state categorical grants (operating grants)	1,844,422	1,556,032
General revenues:		
Property taxes	6,651,758	6,184,994
State aid - unrestricted	17,585,768	16,978,327
Other	<u>1,026,237</u>	<u>969,183</u>
Total revenues	<u>27,680,482</u>	<u>26,240,504</u>
Expenses:		
Instruction	13,791,693	13,216,408
Support services	8,355,633	7,954,582
Community services	229,580	204,568
Food services	930,567	853,534
Athletics	633,370	594,026
Interest on long-term debt	2,269,685	1,902,504
Unallocated depreciation	<u>1,695,497</u>	<u>1,715,048</u>
Total expenses	<u>27,906,025</u>	<u>26,440,670</u>
Decrease in net assets	<u>\$ (225,543)</u>	<u>\$ (200,166)</u>

District Governmental Activities

The current status of the District's finances can be credited both to a struggling State economy and innovative management changes and belt-tightening:

- The State increased the foundation allowance to \$6,875 per pupil up from last years foundation allowance of \$6,700.
- The District successfully negotiated labor contracts with all employee groups that included an average of 1.5% increases in salaries (other than step increases already negotiated).
- The District continued to maintain an Efficiency Plan which was implemented to include economies in staff professional development, field trips, transportation, athletics, professional staffing, instructional assistants, and maintenance/custodial services. The goal remains to initiate changes that reduce the cost of operating the District and reinvest the savings in programs to modernize and raise the quality of education.
- The District continued an Energy Management program with an estimated cost avoidance savings of \$271,000 (from November 2004 through July 2006).

These actions resulted in continued savings to the District for school year 2005-06.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,548,998, which is below last year's ending fund balances of \$2,678,177.

The majority of the District's governmental funds had less revenues than expenditures in 2006; thereby contributing to the decrease in total fund balance. For the year, the General Fund ran a deficit where expenditures were \$236,000 above revenues after transfers out. Debt Service Funds ended the year with revenues exceeding expenditures by approximately \$106,821. Special Revenue Funds (that record the School Lunch Fund, the Athletic Fund, and the Community Services Fund) ended the year with revenues equaling expenditures after transfers in.

Enrollment in the District was 2,947 compared to 2,951 students in the prior year.

General Fund Budgetary Highlights:

Over the course of the year, the District revised the annual operating budget several times. These budget amendments are:

- Changes made in the second and fourth quarters to account for final enrollment counts and changes in assumptions since the original budget were adopted.
- While the District's final budget for the general fund anticipated that revenues would be exceeded by expenditures and transfers by \$301,576, the actual results for the year show a \$(236,000) deficit.

- Actual revenues were \$38,760 greater than expected, due largely to State Aid payments.
- The actual expenditures were \$36,125 below budget, due primarily to staff downsizing and operational efficiencies implemented during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006 the District had invested \$68.1 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment and administrative offices. This amount represents a net decrease of \$88,559. (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for the year exceeded \$1.8 million.

Table A-5				
Allegan Public Schools' Capital Assets				
	2006			2005
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 206,431	\$	\$ 206,431	\$ 178,900
Buildings & additions	58,712,170	12,817,001	45,895,169	47,271,082
Technology	1,842,688	1,624,815	217,873	301,445
Athletic equipment	808,458	417,786	390,672	429,761
General equipment	4,910,100	3,427,916	1,482,184	1,728,899
Transportation equipment	1,572,091	1,138,666	433,425	427,619
Total	<u>\$ 68,051,938</u>	<u>\$ 19,426,184</u>	<u>\$ 48,625,754</u>	<u>\$ 50,337,706</u>

The District's fiscal year 2006 capital budget anticipates no significant purchases. Depreciation expense for 2006 was \$1,853,183.

Long-term Debt

At year-end, the District had \$44.2 million in general obligation bonds and other long-term debt outstanding, a reduction of \$1.6 million. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

- The District continued to pay down its debt, retiring \$1.9 million of outstanding bonds.

Table A-6		
Allegan Public School's Outstanding Long-Term Debt		
2006 - 2005		
<i>(in millions of dollars)</i>		
	2006	2005
General obligation bonds		
(financed with property taxes)	\$ 37.8	\$ 39.7
Other	6.4	6.1
Total	<u>\$ 44.2</u>	<u>\$ 45.8</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

- The 2006 - 2007 foundation allowance has now been finalized by the State of Michigan at \$7,085 per pupil. The foundation allowance represents 70 percent of the total District revenue.
- Negotiations with the teachers and all other employee groups have been completed for the 2006-2007 school year.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts. (Durant)

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's office, Allegan Public Schools, 550 Fifth Street, Allegan, MI 49010 (269.673.5431).

**ALLEGAN PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental activities
<hr/>	
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 634,100
Investments	2,401,946
Receivables:	
Other governmental units	3,778,210
Other	18,666
Taxes	4,695
Inventories	41,429
TOTAL CURRENT ASSETS	<hr/> 6,879,046 <hr/>
NONCURRENT ASSETS:	
Deferred bond issuance costs	175,198
Capital assets	68,051,938
Less accumulated depreciation	(19,426,184)
TOTAL NONCURRENT ASSETS	<hr/> 48,800,952 <hr/>
TOTAL ASSETS	<hr/> \$ 55,679,998 <hr/>
 LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 213,977
Accrued interest	336,382
Accrued salaries and related items	1,404,555
Note payable	1,823,000
Deferred revenue	855,660
Current portion of long term obligations	2,008,635
Current portion of compensated absences	8,000
TOTAL CURRENT LIABILITIES	<hr/> 6,650,209 <hr/>
NONCURRENT LIABILITIES:	
Noncurrent portion of long term obligations	42,087,115
Compensated absences	106,503
TOTAL NONCURRENT LIABILITIES	<hr/> 42,193,618 <hr/>
TOTAL LIABILITIES	<hr/> 48,843,827 <hr/>
NET ASSETS:	
Invested in capital assets net of related debt	4,705,202
Unrestricted	2,130,969
TOTAL NET ASSETS	<hr/> 6,836,171 <hr/>
TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 55,679,998 <hr/>

**ALLEGAN PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 13,791,693	\$	\$ 1,270,362	\$ (12,521,331)
Support services	8,355,633		43,352	(8,312,281)
Community services	229,580	53,195		(176,385)
Food services	930,567	361,747	483,286	(85,534)
Athletics	633,370	157,355		(476,015)
Interest on long-term debt	2,269,685		47,422	(2,222,263)
Unallocated depreciation	1,695,497			(1,695,497)
Total governmental activities	<u>\$ 27,906,025</u>	<u>\$ 572,297</u>	<u>\$ 1,844,422</u>	(25,489,306)
General revenues:				
Property taxes, levied for general purposes				3,106,993
Property taxes, levied for debt service				3,544,765
Investment earnings				105,498
State sources				17,585,768
Intermediate district sources				505,393
Other				415,346
Total general revenues				<u>25,263,763</u>
CHANGE IN NET ASSETS				(225,543)
NET ASSETS, beginning of year				<u>7,061,714</u>
NET ASSETS, end of year				<u>\$ 6,836,171</u>

ALLEGAN PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General fund	Other nonmajor governmental funds	Total governmental funds
ASSETS			
ASSETS:			
Cash	\$ 183,359	\$ 450,741	\$ 634,100
Investments	2,401,946		2,401,946
Receivables:			
Due from other governmental units	3,771,733	6,477	3,778,210
Other	13,292	5,374	18,666
Due from other funds	67,285	393,925	461,210
Taxes	1,170	3,525	4,695
Inventories	30,296	11,133	41,429
TOTAL ASSETS	\$ 6,469,081	\$ 871,175	\$ 7,340,256
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 208,581	\$ 5,396	\$ 213,977
Accrued interest	28,161		28,161
Accrued salaries and related items	1,404,555		1,404,555
Deferred revenue	856,830	3,525	860,355
Due to other funds		461,210	461,210
Note payable	1,823,000		1,823,000
TOTAL LIABILITIES	4,321,127	470,131	4,791,258

	General fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:			
Reserved for:			
Debt service	\$	\$ 371,362	\$ 371,362
Inventories	30,296	11,133	41,429
Total reserved	30,296	382,495	412,791
Unreserved:			
Designated for subsequent year expenses	550,241		550,241
Undesignated	1,567,417	18,549	1,585,966
TOTAL FUND BALANCES	2,147,954	401,044	2,548,998
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,469,081	\$ 871,175	\$ 7,340,256
Total Governmental Fund Balances			\$ 2,548,998

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
The cost of the capital assets is	68,051,938
Accumulated depreciation is	(19,426,184)
Balance of taxes receivable at June 30, 2006 less allowance for doubtful accounts	4,695
Deferred bond issuance costs	175,198
Accrued interest is not included as a liability in government funds, it is recorded when paid	(308,221)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Long-term debt	(44,583,415)
Deferred amount on bond refunding	1,241,625
Premium on debt	(753,960)
Compensated absences	(114,503)
Net assets of governmental activities	\$ 6,836,171

ALLEGAN PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:			
Local sources:			
Property taxes	\$ 3,114,365	\$ 3,547,996	\$ 6,662,361
Food service sales		361,747	361,747
Athletic admissions		157,355	157,355
Community services		53,195	53,195
Interest	73,034	32,464	105,498
Other	403,826	11,520	415,346
Total local sources	3,591,225	4,164,277	7,755,502
State sources	18,034,978	50,597	18,085,575
Federal sources	758,425	432,689	1,191,114
Incoming transfers and other transactions	505,393		505,393
Total revenues	22,890,021	4,647,563	27,537,584
EXPENDITURES:			
Current:			
Instruction	13,808,268		13,808,268
Supporting services	8,642,357		8,642,357
Food service activities		921,918	921,918
Athletic activities		594,281	594,281
Community services	129,592	83,732	213,324
Outgoing transfers and other	17,731		17,731
EXPENDITURES (Concluded):			
Debt service:			
Principal retirement	\$	\$ 1,880,000	\$ 1,880,000
Interest and fiscal charges		2,034,594	2,034,594
Miscellaneous		1,129	1,129
Total expenditures	22,597,948	5,515,654	28,113,602
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	292,073	(868,091)	(576,018)
OTHER FINANCING SOURCES (USES):			
Operating transfers in		528,073	528,073
Operating transfers (out)	(528,073)		(528,073)
Proceeds from school bond loan fund		446,839	446,839
Total other financing sources (uses)	(528,073)	974,912	446,839
NET CHANGE IN FUND BALANCES	(236,000)	106,821	(129,179)
FUND BALANCES, beginning of year	2,383,954	294,223	2,678,177
FUND BALANCES, end of year	\$ 2,147,954	\$ 401,044	\$ 2,548,998

ALLEGAN PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances total governmental funds	\$ (129,179)
---	--------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,853,183)
Capital outlay	141,231

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	353,619
Accrued interest payable end of the year	(308,221)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

Principal repayment	2,036,231
Proceeds from school bond loan fund	(446,839)
Premium on debt	31,415
Deferred bond issuance costs	(7,300)
Deferred amount on bond refunding	(51,734)
Interest on school bond loan fund	(229,772)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(15,298)
Deferred revenue end of the year	4,695

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences beginning of the year	127,316
Accrued compensated absences end of the year	(114,503)

Arbitrage beginning of year	235,979
Arbitrage end of year	

Change in net assets of governmental activities	<u><u>\$ (225,543)</u></u>
--	----------------------------

ALLEGAN PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2006

	<u>Agency funds</u>
ASSETS	
Cash	\$ 14,678
Due from general fund	<u>95,665</u>
	<u>\$ 110,343</u>
LIABILITIES	
Accounts payable	\$ 1,217
Due to student groups	<u>109,126</u>
	<u>\$ 110,343</u>

ALLEGAN PUBLIC SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Allegan Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Allegan Public Schools (the "District") is governed by the Allegan Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Nonmajor Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service, athletic activities and community services in the special revenue funds.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. At June 30, 2006, the 2005 debt service fund had a deficit of \$200,741.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund - Non-homestead	17.0169
Debt service fund - Homestead and non-homestead	7.5500

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds).

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated absences

The District’s contracts generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The District does not consider these amendments to be significant.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	\$ 786,379	0.0027	AAAm	32.7%
MILAF External Investment pool -MIMAX	8,274	0.0027	AAAm	0.3%
Guaranteed Investment Contract (GIC)	<u>1,607,293</u>	0.0575	A1+	<u>67.0%</u>
Total fair value	<u><u>\$ 2,401,946</u></u>			<u><u>100.0%</u></u>
Portfolio weighted average maturity		<u><u>0.0394</u></u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$548,778 of the District's bank balance of \$648,778 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The carrying amount on the financial statements is \$634,100 and \$14,678.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the note payable disclosed in Note 6.

The Investment Agreement, dated as of August 20, 2005, by and among J.P.Morgan Trust Company, National Association, as the Depository on behalf of both the participating Michigan School Districts and the Michigan Municipal Bond Authority, and Citigroup Global Markets, Inc., as Provider.

The net proceeds from the sale of the Series B-1 Notes were loaned by the Authority to Michigan School Districts. Such loans were repaid with monthly set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 103% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 4.09% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Citigroup Global Markets Holdings, Inc., as guarantor of the Provider's obligations under this Investment Agreement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$14,678	\$ 648,778
Investments	<u>2,401,946</u>
	<u><u>\$ 3,050,724</u></u>

The above amounts are reported in the financial statements as follows:

Cash agency fund	\$ 14,678
Cash - District-wide	634,100
Investments - District-wide	<u>2,401,946</u>
	<u><u>\$ 3,050,724</u></u>

NOTE 4 - RECEIVABLES

Receivables from governmental units at June 30, 2006 consist of the following:

	<u>General fund</u>
Other governmental units:	
State aid	\$ 3,413,435
Federal revenue	293,710
Other	<u>71,065</u>
	<u><u>\$ 3,778,210</u></u>

No allowance for doubtful accounts is considered necessary.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Assets not being depreciated - land	\$ 178,900	\$ 27,531	\$	\$ 206,431
Other capital assets:				
Buildings and additions	58,712,170			58,712,170
Technology	1,842,688			1,842,688
Athletic equipment	808,458			808,458
General equipment	4,910,100			4,910,100
Transportation equipment	1,688,181	113,700	(229,790)	1,572,091
Subtotal	67,961,597	113,700	(229,790)	67,845,507
Accumulated depreciation:				
Buildings and additions	11,441,088	1,375,913		12,817,001
Technology	1,541,243	83,572		1,624,815
Athletic equipment	378,697	39,089		417,786
General equipment	3,181,201	246,715		3,427,916
Transportation equipment	1,260,562	107,894	(229,790)	1,138,666
Total accumulated depreciation	17,802,791	1,853,183	(229,790)	19,426,184
Net other capital assets	50,158,806	(1,739,483)		48,419,323
Net capital assets	\$ 50,337,706	\$ (1,711,952)	\$	\$48,625,754

Depreciation for assets serving multiple functions is unallocated.

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
Athletics	\$ 39,089
Food services	8,649
Support services	109,948
Unallocated	1,695,497
	<u>\$ 1,853,183</u>

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NOTE PAYABLE

At June 30, 2006 the District has outstanding a \$1,823,000 revenue note (state aid note) dated August 20, 2005. The note, which has an interest rate of 2.87%, matures August 21, 2006. The District has \$1,607,293 of funds on deposit with a financial institution, which are included in investments on the general fund balance sheet, to be applied against the \$1,823,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid. Subsequent to year-end the District set aside an additional amount to pay off the note principal and related interest expense.

Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
<u>\$ 2,098,000</u>	<u>\$ 1,823,000</u>	<u>\$ 2,098,000</u>	<u>\$ 1,823,000</u>

The District has borrowed \$2,500,000 for the year ending June 30, 2007.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT

The District issues general obligations bonds and Michigan Municipal Bond Authority bonds and notes to provide funds for the acquisition, construction and improvement of major capital facilities, as well as, the purchase of equipment. These bonds and notes are direct obligations and pledge the full faith and credit of the District. Long-term debt is as follows:

\$17,280,000 - 1996 general bond issue (non refunded portion) due in an annual installment of \$635,000 through May 1, 2007; interest at 6.50%	\$ 635,000
\$25,290,000 - 1998 refunding bonds due in annual installments of \$795,000 to \$1,670,000 through May 1, 2022; interest from 4.35% to 5.10%	21,930,000
\$17,890,000 - 2000 general obligation bond issue (non-refunded portion) due in annual installments of \$450,000 to \$475,000 through May 1, 2010; interest from 4.75% to 6.00%	1,850,000
\$13,925,000 - 2005 refunding bonds due in annual installments of \$55,000 to \$740,000 through May 1, 2030; interest from 3.00% to 5.00%	13,870,000
Plus: premium on bond refunding	753,960
Less: deferred amount on bond refunding	<u>(1,241,625)</u>
	37,797,335
 \$463,213 - School Improvement Bonds Limited Obligation Bonds (Durant) due in annual installments of \$23,483 to \$31,048 through May 15, 2013; interest at 4.76%. Certain State Aid payments have been pledged as security.	 <u>189,852</u>
Total bonded debt	37,987,187
Demand promissory note, matures June 17, 2007 with interest at 3.24%.	<u>50,152</u>
	38,037,339
 Borrowings from the State of Michigan under the School Bond Loan and Revolving Loan Funds, including interest	 6,058,411
Compensated absences	<u>114,503</u>
Total general long-term debt	<u><u>\$ 44,210,253</u></u>

ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding excluding compensated absences and school bond loan fund borrowings as of June 30, 2006, including interest of \$18,877,912 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 2,008,635	\$ 1,858,363	\$ 3,866,998
2008	2,044,607	1,756,737	3,801,344
2009	2,140,779	1,664,000	3,804,779
2010	2,232,006	1,563,746	3,795,752
2011	2,218,292	1,455,341	3,673,633
2011-2015	11,170,685	5,730,671	16,901,356
2016-2020	9,200,000	3,141,554	12,341,554
2021-2025	4,550,000	1,337,500	5,887,500
2026-2030	2,960,000	370,000	3,330,000
	<u>\$ 38,525,004</u>	<u>\$ 18,877,912</u>	<u>57,402,916</u>
Premium on bond refunding			753,960
Deferred charge on bond refunding			(1,241,625)
Borrowings from the State of Michigan under the School Bond Loan and Revolving Loan Funds, including interest			6,058,411
Compensated absences			114,503
Total long-term debt including interest			<u>\$ 63,088,165</u>

\$371,362 of funds are available in the debt service funds to service the general obligation debt.

Borrowing from the State of Michigan - The school bond loans payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranging from 4.039% - 4.6845% for the School Revolving Fund notes and 3.125% - 4.5000% for the School Bond Loan Fund notes have been assessed for the year ended June 30, 2006. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.55 mills. The school district is required to levy 7.55 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded)

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2006:

	<u>Compensated absences</u>	<u>Arbitrage</u>	<u>Bonds and other debt</u>	<u>Total</u>
Balance July 1, 2005	\$ 127,316	\$ 235,979	\$ 45,435,051	\$ 45,798,346
Additions			676,611	676,611
Deletions	<u>(12,813)</u>	<u>(235,979)</u>	<u>(2,015,912)</u>	<u>(2,264,704)</u>
Balance June 30, 2006	114,503		44,095,750	44,210,253
Less current portion	<u>(8,000)</u>		<u>(2,008,635)</u>	<u>(2,016,635)</u>
Total due after one year	<u>\$ 106,503</u>	<u>\$</u>	<u>\$ 42,087,115</u>	<u>\$ 42,193,618</u>

Interest expense (all funds) for the year ended June 30, 2006 was approximately \$2,130,000.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, \$34,625,000 of bonds outstanding are considered defeased.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 14.87% until September 30, 2005 and 16.34% effective October 1, 2005 of payroll. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the years ended June 30, 2006, 2005, and 2004 were \$2,080,000, \$1,860,000 and \$1,760,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2006 are as follows:

Receivable fund		Payable fund	
General fund	\$ 67,285	2005 debt service fund	\$ 255,541
1996 debt service fund	207,961	1998 debt service fund	139,761
2000 debt service fund	185,964	School lunch fund	24,558
		Athletic fund	22,909
		Community service fund	18,441
	<u>\$ 461,210</u>		<u>\$ 461,210</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

The District is self insured for dental coverage. The current year expense for June 30, 2006 was approximately \$218,000. Any liability for incurred and unreported claims is considered immaterial.

NOTE 11 - TRANSFERS

The general fund transferred \$65,392 to the school lunch fund, \$435,135 to the athletic fund, and \$27,546 to the community services fund. The transfers were to subsidize operations in these funds.

REQUIRED SUPPLEMENTARY INFORMATION

**ALLEGAN PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local	\$ 3,547,253	\$ 3,767,034	\$ 3,591,225	\$ (175,809)
State sources	17,785,055	17,828,593	18,034,978	206,385
Federal sources	654,382	804,183	758,425	(45,758)
Incoming transfers and other transactions	448,818	451,451	505,393	53,942
Total revenues	22,435,508	22,851,261	22,890,021	38,760
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	10,554,065	10,782,385	10,658,147	124,238
Added needs	3,002,292	3,004,722	3,104,280	(99,558)
Adult and community education	49,055	49,055	45,841	3,214
Total instruction	13,605,412	13,836,162	13,808,268	27,894
Support services:				
Pupil	1,596,513	1,730,532	1,552,116	178,416
Instructional staff	402,262	403,873	519,575	(115,702)
General administration	480,199	480,449	469,187	11,262
School administration	1,402,318	1,402,878	1,429,228	(26,350)
Business	332,741	346,254	415,244	(68,990)
Operation and maintenance	2,765,079	2,764,210	2,852,325	(88,115)
Transportation	1,187,158	1,285,552	1,248,792	36,760
Central service	160,991	182,262	155,890	26,372
Total support services	8,327,261	8,596,010	8,642,357	(46,347)
Community services	109,840	188,140	129,592	58,548
Outgoing transfers and other	7,500	13,761	17,731	(3,970)
Total expenditures	22,050,013	22,634,073	22,597,948	36,125
EXCESS OF REVENUES OVER EXPENDITURES	385,495	217,188	292,073	74,885
OTHER FINANCING USES:				
Operating transfers out	(518,764)	(518,764)	(528,073)	(9,309)
NET CHANGE IN FUND BALANCE	<u>\$ (133,269)</u>	<u>\$ (301,576)</u>	<u>(236,000)</u>	<u>\$ 65,576</u>
FUND BALANCES:				
Beginning of year			2,383,954	
End of year			<u>\$ 2,147,954</u>	

ADDITIONAL INFORMATION

**ALLEGAN PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2006**

	Special revenue	Debt service	Total nonmajor governmental funds
ASSETS			
ASSETS:			
Cash	\$ 78,002	\$ 372,739	\$ 450,741
Receivables:			
Due from other governmental units	6,477		6,477
Other	5,374		5,374
Due from other funds		393,925	393,925
Taxes		3,525	3,525
Inventories	11,133		11,133
TOTAL ASSETS	<u>\$100,986</u>	<u>\$ 770,189</u>	<u>\$ 871,175</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 5,396	\$	\$ 5,396
Deferred revenue		3,525	3,525
Due to other funds	65,908	395,302	461,210
TOTAL LIABILITIES	<u>71,304</u>	<u>398,827</u>	<u>470,131</u>
FUND BALANCES:			
Reserved for:			
Debt service		371,362	371,362
Inventories	11,133		11,133
Total reserved	11,133	371,362	382,495
Unreserved:			
Undesignated	18,549		18,549
TOTAL FUND BALANCES	<u>29,682</u>	<u>371,362</u>	<u>401,044</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$100,986</u>	<u>\$ 770,189</u>	<u>\$ 871,175</u>

ALLEGAN PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006

	Special revenue	Debt service	Total nonmajor governmental funds
REVENUES:			
Local sources:			
Property taxes	\$	\$ 3,547,996	\$ 3,547,996
Food service sales	361,747		361,747
Athletic admissions	157,355		157,355
Community services	53,195		53,195
Interest	4,755	27,709	32,464
Other local revenue	11,520		11,520
Total local sources	588,572	3,575,705	4,164,277
State sources	50,597		50,597
Federal sources	432,689		432,689
Total revenues	1,071,858	3,575,705	4,647,563
EXPENDITURES:			
Current:			
Food service activities	921,918		921,918
Athletic activities	594,281		594,281
Community services	83,732		83,732
Debt service:			
Principal retirement		1,880,000	1,880,000
Interest and fiscal charges		2,034,594	2,034,594
Miscellaneous		1,129	1,129
Total expenditures	1,599,931	3,915,723	5,515,654
DEFICIENCY OF REVENUES OVER EXPENDITURES	(528,073)	(340,018)	(868,091)
OTHER FINANCING SOURCES:			
Operating transfers in	528,073		528,073
Proceeds from school bond loan fund		446,839	446,839
Total other financing sources	528,073	446,839	974,912
NET CHANGE IN FUND BALANCES		106,821	106,821
FUND BALANCES, beginning of year	29,682	264,541	294,223
FUND BALANCES, end of year	\$ 29,682	\$ 371,362	\$ 401,044

**ALLEGAN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	School lunch fund	Athletic fund	Community services fund	Total
ASSETS				
Cash	\$ 20,940	\$ 23,899	\$ 33,163	\$ 78,002
Receivables:				
Due from other governmental units	6,477			6,477
Other	5,374			5,374
Inventories	11,133			11,133
TOTAL ASSETS	\$ 43,924	\$ 23,899	\$ 33,163	\$ 100,986
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 5,396	\$	\$	\$ 5,396
Due to other funds	24,558	22,909	18,441	65,908
Total liabilities	29,954	22,909	18,441	71,304
Fund balances:				
Reserved:				
Inventories	11,133			11,133
Unreserved:				
Undesignated	2,837	990	14,722	18,549
Total fund balances	13,970	990	14,722	29,682
TOTAL LIABILITIES AND FUND BALANCES	\$ 43,924	\$ 23,899	\$ 33,163	\$ 100,986

**ALLEGAN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	School lunch fund	Athletic fund	Community services fund	Total
REVENUES:				
Local sources:				
Food service sales	\$ 361,747	\$	\$	\$ 361,747
Athletic admissions		157,355		157,355
Interest	2,451	1,791	513	4,755
Community services and tuition			53,195	53,195
Other local revenue	9,042		2,478	11,520
State aid	50,597			50,597
Federal aid	432,689			432,689
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	856,526	159,146	56,186	1,071,858
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES:				
Salaries and wages	217,064	326,817	56,490	600,371
Employee benefits	188,840	101,245	18,127	308,212
Supplies and materials	51,375	10,962	2,289	64,626
Purchased services	2,964	77,572	3,019	83,555
Management fees	85,897			85,897
Other	18	12,410	3,707	16,135
Food costs	371,652			371,652
Operations and maintenance	4,108	65,275	100	69,483
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	921,918	594,281	83,732	1,599,931
	<hr/>	<hr/>	<hr/>	<hr/>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(65,392)	(435,135)	(27,546)	(528,073)
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES:				
Operating transfer in from general fund	65,392	435,135	27,546	528,073
	<hr/>	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES				
FUND BALANCES, beginning of year	13,970	990	14,722	29,682
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES, end of year	\$ 13,970	\$ 990	\$ 14,722	\$ 29,682
	<hr/>	<hr/>	<hr/>	<hr/>

**ALLEGAN PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	<u>1996</u>	<u>1998</u>	<u>2000</u>	<u>2005</u>	<u>Total</u>
ASSETS					
Cash	\$ 59,243	\$ 197,478	\$ 61,218	\$ 54,800	\$ 372,739
Receivables:					
Taxes	560	1,868	579	518	3,525
Due from other funds	207,961		185,964		393,925
TOTAL ASSETS	<u>\$ 267,764</u>	<u>\$ 199,346</u>	<u>\$ 247,761</u>	<u>\$ 55,318</u>	<u>\$ 770,189</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Deferred revenue	\$ 560	\$ 1,868	\$ 579	\$ 518	\$ 3,525
Due to other fund		139,761		255,541	395,302
Total liabilities	560	141,629	579	256,059	398,827
Fund balances (deficit):					
Reserved for debt service	267,204	57,717	247,182	(200,741)	371,362
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 267,764</u>	<u>\$ 199,346</u>	<u>\$ 247,761</u>	<u>\$ 55,318</u>	<u>\$ 770,189</u>

**ALLEGAN PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	<u>1996</u>	<u>1998</u>	<u>2000</u>	<u>2005</u>	<u>Total</u>
REVENUES:					
Property taxes	\$ 563,920	\$ 1,879,733	\$ 582,717	\$ 521,626	\$ 3,547,996
Interest on investments	4,404	14,680	4,551	4,074	27,709
Total revenues	<u>568,324</u>	<u>1,894,413</u>	<u>587,268</u>	<u>525,700</u>	<u>3,575,705</u>
EXPENDITURES:					
Principal retirement	625,000	750,000	450,000	55,000	1,880,000
Interest on bonded debt	81,900	1,094,762	121,000	736,932	2,034,594
Miscellaneous	219	730	(23)	203	1,129
Total expenditures	<u>707,119</u>	<u>1,845,492</u>	<u>570,977</u>	<u>792,135</u>	<u>3,915,723</u>
EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES	(138,795)	48,921	16,291	(266,435)	(340,018)
OTHER FINANCING SOURCES:					
Proceeds from school loan fund	<u>71,021</u>	<u>236,736</u>	<u>73,388</u>	<u>65,694</u>	<u>446,839</u>
NET CHANGE IN FUND BALANCES	(67,774)	285,657	89,679	(200,741)	106,821
FUND BALANCES (DEFICIT), beginning of year	<u>334,978</u>	<u>(227,940)</u>	<u>157,503</u>		<u>264,541</u>
FUND BALANCES (DEFICIT), end of year	<u>\$ 267,204</u>	<u>\$ 57,717</u>	<u>\$ 247,182</u>	<u>\$ (200,741)</u>	<u>\$ 371,362</u>

ALLEGAN PUBLIC SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Student council - West Ward	\$ 7,307	\$ 14,230	\$ 16,697	\$ 4,840
West Ward library	768	4,929	4,299	1,398
Student council - Dawson	3,082	12,101	9,661	5,522
Student council - North Ward	1,956	1,823	2,402	1,377
Student council - Pine Trails	5,932	17,250	15,688	7,494
Junior Hi-lights	1,533	6,846	7,252	1,127
Student council - Jr. High	12,464	28,732	28,509	12,687
Quiz bowl	1,155	918	1,441	632
AHS literary magazine	513	801	1,153	161
Spanish club - Sr. club	3,729	4,139	5,955	1,913
French club	647	6,545	6,087	1,105
Echo - Yearbook	2,843	22,825	24,438	1,230
Power club	2,196	24,885	21,934	5,147
Decca club	2,537		729	1,808
National Honor society	6,365	15,598	16,249	5,714
Michigan Youth in government	1,672	3,205	4,214	663
Fellowship	776	396	429	743
Student council - Sr. High	4,852	23,896	24,020	4,728
Senior high recycling	241	1,493	1,496	238
Library - Sr. High	229	9		238
Senior high band	284	147		431
School store - Orange Karate	9,126	19,153	17,416	10,863
Dramatics - Sr. High	7,090	8,662	12,543	3,209
SADD - AHS chapter	531			531
Class of 1995	2,557		1,612	945

**ALLEGAN PUBLIC SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2006**

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Class of 1997	\$ 793	\$	\$	\$ 793
Class of 1999	1,394			1,394
Class of 2001	383			383
Class of 2002	131			131
Class of 2003	3,458			3,458
Class of 2004	3,915			3,915
Class of 2005	754	1,340	1,056	1,038
Class of 2006	4,608	2,790	5,712	1,686
Class of 2007	815	6,710	4,695	2,830
Class of 2008	1,129	1,361	1,040	1,450
Class of 2009	501	6,246	3,986	2,761
Swim Club	7,648	6,051	12,596	1,103
Student council - Southward	7,852	8,766	8,123	8,495
Horticulture	2,609	2,361	1,632	3,338
Video production	2,055	809	1,257	1,607
	<u>\$ 118,430</u>	<u>\$ 255,017</u>	<u>\$ 264,321</u>	<u>\$ 109,126</u>

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2006**

\$17,280,000 Bonds issued August 13, 1996:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
<u>\$ 635,000</u>	<u>\$ 20,638</u>	<u>\$ 20,637</u>	2007	<u>\$ 676,275</u>

The above bond issue bears interest at 6.5%. The bond proceeds were used for the construction, remodeling, purchase and improvement of school facilities and sites.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2006**

\$25,290,000 Refunding Bonds issued March 11, 1998:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 795,000	\$ 531,256	\$ 531,256	2007	\$ 1,857,512
1,515,000	513,965	513,965	2008	2,542,930
1,580,000	480,256	480,256	2009	2,540,512
1,670,000	444,706	444,706	2010	2,559,412
1,655,000	406,296	406,296	2011	2,467,592
1,645,000	367,404	367,404	2012	2,379,808
1,635,000	327,513	327,513	2013	2,290,026
1,625,000	287,455	287,455	2014	2,199,910
1,615,000	247,236	247,236	2015	2,109,472
1,605,000	206,861	206,861	2016	2,018,722
1,590,000	166,335	166,335	2017	1,922,670
1,580,000	125,790	125,790	2018	1,831,580
845,000	85,500	85,500	2019	1,016,000
865,000	64,375	64,375	2020	993,750
860,000	42,750	42,750	2021	945,500
850,000	21,250	21,250	2022	892,500
<u>\$ 21,930,000</u>	<u>\$ 4,318,948</u>	<u>\$ 4,318,948</u>		<u>\$ 30,567,896</u>

The above bond issue bears interest at rates ranging from 4.35% to 5.10%. The bond proceeds were used to refund the 1992 and 1996 bond issues.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2006**

\$17,890,000 Bonds issued August 10, 2000:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 450,000	\$ 49,250	\$ 49,250	2007	\$ 548,500
450,000	38,562	38,562	2008	527,124
475,000	27,313	27,313	2009	529,626
475,000	14,250	14,250	2010	503,500
<u>\$ 1,850,000</u>	<u>\$ 129,375</u>	<u>\$ 129,375</u>		<u>\$ 2,108,750</u>

The above bond issue bears interest at rates ranging from 4.75% to 6.00%. The bond proceeds were used for construction of a new auditorium and pool.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2006**

\$13,925,000 Refunding Bonds issued March 11, 2006

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 55,000	\$ 322,706	\$ 322,706	2007	\$ 700,412
55,000	321,881	321,881	2008	698,762
60,000	321,056	321,056	2009	702,112
60,000	320,156	320,156	2010	700,312
535,000	319,256	319,256	2011	1,173,512
555,000	308,556	308,556	2012	1,172,112
580,000	296,763	296,763	2013	1,173,526
600,000	285,888	285,888	2014	1,171,776
615,000	273,888	273,888	2015	1,162,776
635,000	261,588	261,588	2016	1,158,176
655,000	245,713	245,713	2017	1,146,426
670,000	232,941	232,940	2018	1,135,880
690,000	219,875	219,875	2019	1,129,750
710,000	202,625	202,625	2020	1,115,250
735,000	184,875	184,875	2021	1,104,750
740,000	166,500	166,500	2022	1,073,000
740,000	148,000	148,000	2023	1,036,000
740,000	129,500	129,500	2024	999,000
740,000	111,000	111,000	2025	962,000
740,000	92,500	92,500	2026	925,000
740,000	74,000	74,000	2027	888,000
740,000	55,500	55,500	2028	851,000
740,000	37,000	37,000	2029	814,000
740,000	18,500	18,500	2030	777,000
<u>\$ 13,870,000</u>	<u>\$ 4,950,266</u>	<u>\$ 4,950,265</u>		<u>\$ 23,770,534</u>

The above bond issue bears interest at rates ranging from 3.00% to 5.00%. The bond proceeds were used for refunding a portion of the School District's outstanding 2000 School Building and Site Bonds.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2006**

\$463,213 1998 School Improvement Bonds (Durant Bonds)
issued November 24, 1998 (Limited Obligation Bonds)

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 23,483	\$ 9,040	2007	\$ 32,523
24,607	7,921	2008	32,528
25,779	6,750	2009	32,529
27,006	5,522	2010	32,528
28,292	4,237	2011	32,529
29,637	2,889	2012	32,526
31,048	1,478	2013	32,526
<u>\$ 189,852</u>	<u>\$ 37,837</u>		<u>\$ 227,689</u>

The above bond issue bears interest at 4.76%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**ALLEGAN PUBLIC SCHOOLS
DEMAND PROMISSORY NOTE
JUNE 30, 2006**

\$150,456 Note issued June 17, 2004:

Principal due June 17,	Interest due		Debt service requirement for fiscal year	
	December 17,	June 17,	June 30,	Amount
<u>\$ 50,152</u>	<u>\$ 812</u>	<u>\$ 812</u>	2007	<u>\$ 51,776</u>

The above note bears interest at 3.24%. The note was used to purchase buses for the school district.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF BORROWING - STATE OF MICHIGAN
SCHOOL BOND LOAN AND REVOLVING LOAN FUNDS
JUNE 30, 2006

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State of Michigan under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Accrued interest</u>	<u>Net increase</u>	<u>Balance</u>
2000	\$ 417,581	\$ 14,521	\$ 432,102	\$ 432,102
2001	1,199,605	31,801	1,231,406	1,663,508
2002	1,357,660	80,220	1,437,880	3,101,388
2003	268,991	111,985	380,976	3,482,364
2004	1,426,095	117,002	1,543,097	5,025,461
2005	203,987	152,352	356,339	5,381,800
2006	446,839	229,772	676,611	6,058,411

ALLEGAN PUBLIC SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2006

CONTENTS

	<u>Page</u>
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	1 - 2
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	3 - 4
Schedule of expenditures of federal awards	5 - 9
Notes to schedule of expenditures of federal awards.....	10
Schedule of findings and questioned costs	11 - 12
Schedule of prior audit findings.....	13
Corrective action plan	14



Iamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Racek
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Allegan Public Schools
Allegan, Michigan

October 9, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2006, which collectively comprise Allegan Public School's basic financial statements and have issued our report thereon dated October 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allegan Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Allegan Public Schools' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-01.

October 9, 2006

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allegan Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Allegan Public Schools in a separate letter dated October 9, 2006.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raack
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Allegan Public Schools
Allegan, Michigan

October 9, 2006

Compliance

We have audited the compliance of Allegan Public Schools with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Allegan Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of Allegan Public Schools' management. Our responsibility is to express an opinion on Allegan Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allegan Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allegan Public Schools' compliance with those requirements.

In our opinion, Allegan Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2006-02.

Internal Control Over Compliance

The management of Allegan Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allegan Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated October 9, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Allegan Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer, Costeniser & Ellis, P.C.

Certified Public Accountants

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2005	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2006
U.S. Department of Agriculture:							
Passed through Michigan Department of Education:							
Child Nutrition Cluster:							
National School Lunch Program:	10.555						
41950 & 41960 Lunch (2003-2004)		\$ 262,933	\$	\$ 32,250	\$	\$	\$
51950 & 51960 Lunch (2004-2005)		270,835		242,189	28,646	28,646	
61950 & 61960 Lunch (2005-2006)		275,846			275,846	275,846	
Total National School Lunch Program		809,614		274,439	304,492	304,492	
National School Breakfast Program	10.553						
41970 Breakfast (2003-2004)		62,626		6,554			
51970 Breakfast (2004-2005)		64,051		58,448	5,603	5,603	
61970 Breakfast (2005-2006)		70,925			70,925	70,925	
Total National School Breakfast Program		197,602		65,002	76,528	76,528	
Special Milk Program for Children	10.556						
41940 Special Milk Program (2003-2004)		2,188		408			
51940 Special Milk Program (2004-2005)		2,405		2,102	303	303	
61940 Special Milk Program (2005-2006)		2,619			2,619	2,619	
Total Special Milk Program for Children		7,212		2,510	2,922	2,922	
Total Child Nutrition Cluster		1,014,428		341,951	383,942	383,942	

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2005	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2006
U.S. Department of Agriculture (Concluded):							
Passed through Michigan Department of Education:							
Food Distribution:							
Entitlement Commodities:	10.550						
FY 2003-2004		\$ 5,564	\$	\$	\$ 5,564	\$ 5,564	\$
FY 2004-2005		362			362	362	
FY 2005-2006		29,430			29,430	29,430	
Total Entitlement Commodities		35,356			35,356	35,356	
Bonus Commodities:	10.550						
FY 2003-2004		2,472			2,472	2,472	
FY 2004-2005		10,919			10,919	10,919	
Total Bonus Commodities		13,391			13,391	13,391	
Total USDA Non-Cluster Assistance		48,747			48,747	48,747	
Total U.S. Department of Agriculture		1,063,175		341,951	432,689	432,689	
U.S. Department of Education:							
Passed through Michigan Department of Education:							
Title I:	84.010						
Project number 041530-0304		457,824		41,257			
Project number 051530-0405		415,579	13,325	343,436	72,143	85,468	
Project number 061530-0506		441,894			369,274	229,437	139,837
Total Title I		1,315,297	13,325	384,693	441,417	314,905	139,837

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2005	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2006
U.S. Department of Education (Continued):							
Passed through Michigan Department of Education:							
Title V:	84.298						
Project number 040250-0304		\$ 2,392	\$	\$ 2,256	\$	\$	\$
Project number 050250-0405		1,818		1,818			
Total Title V		4,210		4,074			
Ed Tech - Formula Grants	84.318						
Project number 044290-0304		11,077		2,827			
Project number 054290-0405		8,231	245	9,396		2,576	(2,331)
Total Ed Tech		19,308	245	12,223		2,576	(2,331)
Improving Teacher Quality:							
Project number 050520-0405	84.367	147,194	3,740	132,742	14,452	18,192	
Project number 060520-0506		147,793			143,966		143,966
Total Improving Teacher Quality		294,987	3,740	132,742	158,418	18,192	143,966
Total passed through Michigan Department of Education		1,633,802	17,310	533,732	599,835	335,673	281,472
Passed through Allegan County Intermediate School District:							
Transition Services:	84.027						
Project number 050490-1TS		995		995			
Project number 060490-TS		631			631	451	180
Total Transition Services		1,626		995	631	451	180

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2005	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2006
U.S. Department of Education (Continued):							
Passed through Allegan County Intermediate School District:							
PL94-142 Pre School Incentive:	84.173						
Project number 050460-1		\$ 12,068	\$	\$ 12,068	\$	\$	\$
Project number 060460		10,182			10,182	10,182	
Total Pre School Incentive		22,250		12,068	10,182	10,182	
WIA Cluster	17.259						
Youth Tuition WIA-053-05		125			125	125	
Youth-Aim Lab WIA-053-05		11,638			11,638		11,638
Total WIA Cluster		11,763			11,763	125	11,638
Total passed through Allegan County Intermediate School District		35,639		13,063	22,576	10,758	11,818
Passed through Ottawa County Intermediate School District:							
Drug Free Schools and Communities:	84.186						
Project number 052860		21,362		18,632	2,730	2,730	
Project number 062860		11,512			11,512	11,512	
Total passed through Ottawa County Intermediate School District		32,874		18,632	14,242	14,242	
Passed through Office of Safe and Drug-Free Schools:							
Mentoring Program Grants Q184B050035	84.184B	220,357			101,871	101,452	419
Total U.S. Department of Education		1,922,672	17,310	565,427	738,524	462,125	293,709

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2005	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2006
U.S. Department of Health and Human Services:							
Passed through Michigan Family Independence Agency:							
Welcome Schools SFSC Grant PREV-05-03007	93.558	\$ 28,032	\$	\$	\$ 19,609	\$ 19,609	\$
U.S. Department of Homeland Security:							
Passed through Michigan State Police, Emergency							
Management Division (MSP-EMD):							
2003 State Homeland Security Grant Program, Part II, Equipment	97.004	292			292	292	
TOTAL FEDERAL AWARDS		<u>\$ 3,014,171</u>	<u>\$ 17,310</u>	<u>\$ 907,378</u>	<u>\$ 1,191,114</u>	<u>\$ 914,715</u>	<u>\$ 293,709</u>

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Allegan Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The Child Nutrition Cluster, CFDA #10.553, #10.555 and #10.556 and #84.184B were audited as major programs and represents 41% of expenditures.
2. The threshold for distinguishing Type A and B programs was \$300,000.
3. Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.
4. Management has utilized the R7120, Grant Section Auditors' Report, in preparing the schedule of expenditures of federal awards.
5. The amounts reported on the Receipt Entitlement Balance Report agree with this schedule for USDA donated food commodities.

NOTE 3 - RECONCILIATION OF FEDERAL REVENUE

The current year expenditures on the Schedule of Expenditures of Federal Awards agrees to the federal revenue reported in the financial statements.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>#10.553, #10.555, and #10.556</u>	<u>Child Nutrition Cluster</u>
<u>#84.184B</u>	<u>Mentoring Program Grant</u>

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section II - Financial Statement Findings

Reportable Condition 2006-01 - Considered a material weakness

Criteria: During the year, month-end reconciliations of primary asset and liability accounts were not completed in a timely manner. This resulted in year end adjustments to several accounts.

Condition: During the year, the District experienced employee turnover with its Business Manager.

Effect: Material weakness in internal control

Cause: Completion of reconciliations primarily in the area of cash, investments, accounts receivable, accounts payable, accrued liabilities and revenue on a monthly basis was not completed.

Recommendation: The District should implement month end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

Section III - Federal Award Findings and Questioned Costs

Finding 2006-02

Federal Programs: Mentoring Program Grant CFDA # 84.184B

Specific Requirement: Cash management

Criteria: The grant in question allows for cash advances for up to 3 days of cash needs.

Condition: The District incorrectly forecasted its cash needs throughout the school year, and consequently received cash advances in excess of immediate cash needs.

Questioned Costs: The District may owe interest income earned back to the Michigan Department of Education. At June 30, 2006, \$35,638 had been received and not expended. The excess cash was subsequently refunded after June 30, 2006, to the Department of Education.

Context: This was the first year of a three year grant and the inexperience of the employees involved with administering this program resulted in this error.

Effect: The District has excess cash and an accounts payable balance at June 30, 2006. The District received the benefit of interest earnings on the unspent federal funds.

Cause: Premature request of funds which could not be spent within the subsequent 3 days.

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the 3 day cash needs criteria.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

There were no prior year audit findings for the year ended June 30, 2005.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

October 9, 2006

To the Board of Education
Allegan Public Schools
Allegan, Michigan

In planning and performing our audit of the financial statements of Allegan Public Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated October 9, 2006, on the financial statements of Allegan Public Schools.

Repeat Comments

Imprest Payroll Account

An imprest payroll bank account should be established and transfers made in the exact amount of the net pay disbursed. The exact amount of net pay should be transferred to the payroll bank account. This procedure allows for a timely, effective reconciliation of the payroll bank account. Further, the control limits exposure to unauthorized disbursements from the imprest account.

Improve internal controls relating to the payroll process

The individual who has the responsibility to add and delete employees can also change the pay rate or other relevant information. In addition, this person directly receives all of the payroll reports, along with the payroll checks.

We recommend that the business manager receive the reports directly from the preparer and from the ISD, if needed. The report should then be reviewed to ensure that there are no fictitious employees and that the payroll appears reasonable. The reports do not have to be reviewed in detail, but should be scanned to ensure there are no obvious errors or irregularities. The person responsible for processing payroll would still be responsible for ensuring the overall accuracy of the report. We also recommend that the person who processes the report be restricted from handling the payroll checks before distribution.

In addition, there should be written documentation for the procedures of processing payroll, reviewing the reports to ensure accuracy, and distribution of the payroll checks. This will facilitate the process, should those responsible be absent. Payroll policies should be incorporated into the accounting policies and procedures manual.

A comprehensive disaster recovery plan should be developed and tested

Without a written tested disaster recovery plan, the District increases its exposure to business interruption. Accordingly, a disaster recovery plan should be developed and periodically tested. A copy of the plan should be stored in an off-site vault with backup tapes. Such a plan should address the following areas:

- Identification of the critical application systems and the minimum acceptable run frequency and turnaround times;
- Consideration of manual processing alternatives and length of time they could feasibly operate;
- Identification of a back-up processing site, including a formalized arrangement for utilizing the facility;
- Compatibility of system software at the back-up site;
- Requirements for data file back-up, system documentation, equipment and detailed action plans for each critical application; and
- Personnel to be notified in the event of a disruption and the responsibilities of key EDP and user personnel.

A formal disaster recovery plan is desirable to define the procedures required by the District to continue operations with a minimum of disruption during system “down time”. The plan should also describe user recovery procedures when on-line service is subsequently available. The plan should be updated and tested on a regular basis.

Improve and Standardize Monthly Closing Procedures – Material Weakness

The District does not reconcile all general ledger account balances on a monthly basis. This resulted in extensive client closing adjustments and audit adjustments to reconcile differences and to record the actual year-end balances for cash, accounts receivable, prepaid expenses, fixed assets, accounts payable, payroll accruals, and deferred revenue. Without the performance of periodic account reconciliations, information provided to management may not be accurate, thereby affecting management decisions. Furthermore, the probability that additional errors could occur and go undetected for a long time is greatly increased.

We believe that a review and evaluation of transactions and formalized monthly closing procedures will expedite the month-end closing and improve interim reporting. A formalized month end procedures checklist should be implemented and reviewed monthly. Also, all reconciliations should be reviewed by a designated individual to ensure accuracy and completeness and to verify that reconciled items have been properly handled.

In addition to the above, we also recommend that all bank and investment accounts for each fund be reconciled monthly to a specific general ledger account to allow for ease of distinguishing reconciling items for each fund.

Separate Debt Service Funds

Currently, all of the debt service fund assets, liabilities, equity and activities are recorded in one fund. To improve reporting and reconciling procedures, we recommend that each debt service fund be broken out into its own fund noting all individual balances and activity in a format similar to the audit report.

Current Year Comments

The following are our current year comments. We have separately reported a material weakness in internal control as part of our reporting requirements under the single audit act and OMB Circular A-133.

Cash: Reconcile Bank Statements Timely – Material Weakness

During the audit, we noted that bank statements for Allegan Public School's various accounts were not reconciled to the general ledger. Many of the problems encountered within the area of cash can be avoided if a proper system of checks and balances is incorporated into the District's procedures. We recommend that all of the bank accounts be reconciled monthly to the general ledger and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanations.

In addition, all reconciliations should be reviewed and bank statements should be received and opened by an appropriate individual not involved in the check writing process.

Cash Management: Cash Receipts

We noted during the audit process that supporting documentation for cash receipts was frequently lost or misplaced. In addition, proper receipt books were not maintained at the various school locations. This documentation is an important part of the books and records, and effective internal control procedures should not allow for this to occur. We strongly suggest that the District establish and consistently maintain a regular, systematic filing system.

Cash Management: Timely Posting

We noted at times that there is a considerable delay in posting cash receipts. For cash collection and cash review to be at an optimum level of performance, it is imperative that cash receipts be posted on a timelier basis.

Control of Check Signature Software

During our review of accounting procedures as a component of the audit process, we noted that the ability to initialize and run the signature software was within the capabilities of the accounts payable and payroll clerk. These individuals have the ability to enter vendors and print checks. This situation bypasses the review and approval aspect of checks being issued. We recommend that the business manager and the director of operations control access to the signature software and that these procedures be strictly followed without exception.

Retain Payroll Run Documentation

During our audit, it was discovered that the District does not retain certain payroll documentation for archival purposes. As a result, we were unable to complete certain payroll tests involving employee rates. The District should retain all documentation after each pay run or be able to access employee history through the computer system if needed.

Accounting System

Our analysis of the District's current computer accounting system indicated that it has certain limitations, such as its ability to generate needed reports to display yearly activity and generate monthly internal financial statements for management. It is our understanding that the District will be transitioning to a new software package/upgrade from the existing software. We strongly encourage a proper oversight by management during the upgrade phase.

Please be aware of the following points before, during, and after the implementation process:

- Document all processes performed with the upgraded software and create/update the accounting procedures manual.
- Perform a formal testing of the upgrades to check functionality and review all internal control aspects during and after the upgrade process so that no controls are circumvented.
- Update all safeguards and password-protect all data.
- Review all accounts before and after the upgrade process to obtain assurance that all accounts have maintained their integrity.
- Be aware of any limitations of duties by personnel with the upgrades and prepare to shift responsibilities if the need arises.
- Perform training for employees to ease transition.
- Review/create a disaster recovery plan for all data.

Adequacy of Bonding Insurance Coverage

As a part of our regular audit procedures, we reviewed Allegan Public School's insurance coverage and as a result, noted that the level of bonding insurance seemed low in relation to the dollar value of assets and revenues. Bonding coverage insures an organization in the event of theft or embezzlement by an employee and is an inherent element in any system of internal controls. Currently, Allegan Public School's has \$10,000 in bonding insurance coverage. We strongly recommend that the limits of Allegan Public School's bonding coverage be reviewed by both the Board and an insurance professional and adjusted accordingly. It is our understanding these limits were increased to \$250,000 subsequent to year end.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently the Michigan Department of Education has identified violations of the Act including, but not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board.
- Ending the fiscal year with a negative general fund balance.
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continues to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the District's current budget procedures should be monitored during the year to avoid budget violation letters from the Michigan Department of Education.

The District should review its budget in the areas of state revenue, instruction, support services and pupil transportation. These were areas which had negative variances this year. In general, overall District procedures in this area resulted in an accurate budget when compared to actual.

Cash Management - Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation. During fiscal year 2005/2006, the District requested excess funds associated with the Safe Futures Mentoring federal award program that were not supported with approved expenditures. While the excess funds have been returned to the federal government, this was a direct violation of the Cash Management Improvement Act.

Free and Reduced Documentation

As part of our audit of the District's free and reduced federal program, we noted that some applications associated with the free and reduced program were not entirely complete. While all applications were not 100% complete, only eligible participants received services of meals. The District should follow appropriate procedures to allow full completion of all applications.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

To the Board of Education
Allegan Public Schools
Allegan, Michigan

11

October 9, 2006

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Allegan Public Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mona Costenaro, E. Ellis, P.C.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raack
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

October 9, 2006

To the Board of Education
Allegan Public Schools
Allegan, Michigan

We have audited the financial statements of Allegan Public Schools for the year ended June 30, 2006, and have issued our report thereon dated October 9, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Allegan Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Allegan Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Allegan Public Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Allegan Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Allegan Public Schools' compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Allegan Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Allegan Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the liability of the payout for employee compensated absences upon their retirement is based on expected payouts; the balance reported was approximately \$115,000. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole. Certain property and equipment was initially recorded using estimates by an appraisal company.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Allegan Public Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, certain adjustments we proposed, which were recorded by the Allegan Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Allegan Public Schools' financial reporting process, primarily Deferred State Aid revenue of approximately \$850,000. Management has approved all adjustments which were numerous.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Allegan Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. We did incur delays which required additional audit procedures to be performed.

This information is intended solely for the use of the Board of Education, management, and federal awarding agencies and pass-through entities of Allegan Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costeniser & Ellis, P.C.

**ALLEGAN PUBLIC SCHOOLS
CORRECTIVE ACTION PLAN
JUNE 30, 2006
CONTACT PERSON: DON KOPERSKI
OVERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Allegan Public Schools respectfully submits the following corrective action plan for the year ended June 30, 2006.

Auditor: Maner, Costerisan & Ellis, P.C.
544 Cherbourg Drive, Suite 200
Lansing, Michigan 48917-5010

Audit Period: Year ended June 30, 2006

The finding from the June 30, 2006 schedule of findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the schedule.

Finding - Financial statement audit

Reportable condition considered a material weakness 2006-01.

Recommendation: The District should implement month end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

Action to be taken: We concur with the recommendation. We have worked diligently to resolve all issues. We are currently in the process of instituting month end closing procedures.

Finding - Federal award audit

Reportable condition 2006-02

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the 3 day cash needs criteria.

Action to be taken: We concur with the recommendation. We have worked diligently to improve the federal grant request process.